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# FEDERAL FARM LOANS, PURCHASE OF DEBENTURES

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## HEARING

BEFORE THE

## COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

**S. 4563**

A BILL TO AMEND SECTIONS 12, 13, AND 32 OF THE FEDERAL FARM LOAN ACT, APPROVED JULY 17, 1916, AS AMENDED

**S. 4575**

A BILL TO AMEND CERTAIN SECTIONS OF THE FEDERAL RESERVE ACT AND OF THE FEDERAL FARM LOAN ACT FOR THE PURPOSE OF FURTHER ENCOURAGING THE DEVELOPMENT OF AGRICULTURE AND THE PRODUCTION OF FOOD-STUFFS AND OTHER STAPLE AGRICULTURAL PRODUCTS

AND

**S. J. Res. 222**

RELATING TO THE USE OF NET EARNINGS DERIVED BY THE UNITED STATES FROM THE FEDERAL RESERVE BANKS IN THE YEARS 1921 AND 1922, BEING THE EARNINGS ACCRUED AND ACCRUING DURING THE YEARS 1920 AND 1921

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Printed for the use of the Committee on Banking and Currency

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WASHINGTON

GOVERNMENT PRINTING OFFICE

1920

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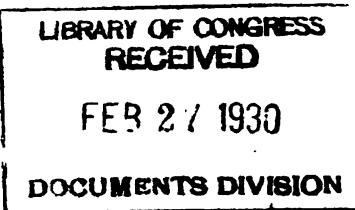
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## FEDERAL FARM LOANS—PURCHASE OF DEBENTURES.

FRIDAY, DECEMBER 17, 1920.

### COMMITTEE ON BANKING AND CURRENCY, UNITED STATES SENATE.

The committee met at 10.30 o'clock a. m., pursuant to call of the chairman, Senator George P. McLean presiding.

Present: Senators McLean (chairman), Page, Gronna, Sterling, Hitchcock, Henderson, Fletcher, and Kendrick.

The committee had under consideration the following bill:

[S. 4563, Sixty-sixth Congress, third session.]

A BILL To amend sections 12, 13, and 32 of the Federal Farm Loan act, approved July 17, 1916, as amended.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 12 of the Federal farm loan act, approved July 17, 1916, as amended by the act approved April 20, 1920, is hereby further amended by inserting in the first sentence thereof after the word "loans" the following: "Other than those authorized under the tenth subdivision of section 13 of this act," so that the sentence shall read as follows: "That no Federal land bank organized under this act shall make loans, other than those authorized under the tenth subdivision of section 13 of this act, except upon the following terms and conditions."

SEC. 2. That section 13 of the Federal farm loan act, approved July 17, 1916, is hereby amended by adding to the end thereof a new paragraph reading as follows:

"Tenth. Subject to such restrictions, limitations, and conditions as shall be imposed by the Federal Farm Loan Board, and under such rules and regulations as the said board shall prescribe, to make loans based on staple agricultural products or live stock out of such funds as it may derive from the sale to the Secretary of the Treasury of its debentures or other similar obligations issued pursuant to the provisions of section 32 of this act as amended. Such loans may be made to any individual, partnership, corporation, or association, including any producers' cooperative association or cattle loan association engaged in producing, purchasing, carrying, or marketing staple agricultural products, or in raising, fattening, or marketing live stock, or to any bank, banking association, or banker which has made loans based on staple agricultural products or live stock to any individual, partnership, corporation, or association, and such loans shall be secured by the pledge of such staple agricultural products or live stock, or by a warehouse or other similar receipt conveying security title to such agricultural products or live stock, or by such other security as the Federal Farm Loan Board, in the exercise of its right to make rules and regulations concerning these loans, may approve. The loans made under authority of this subdivision shall be for periods not to exceed six months when based on staple agricultural products, and for periods not to exceed two years when based on live stock."

SEC. 3. That section 32 of the Federal farm loan act, approved July 17, 1916, as amended by the act approved January 18, 1918, be further amended by adding at the end thereof the following:

"That on and after the date on which this act shall become effective and until December 31, 1922, the Federal land banks, subject to the approval of the Federal Farm Loan Board, are authorized to issue debentures or other similar obligations, provided that the aggregate amount thereof at any one time outstanding shall not exceed \$100,000,000: And provided further, That the proceeds derived by the Federal land banks from the sale of such debentures or other similar obligations shall be used to make loans authorized by subdivision 10 of section 13 of this act, and for no other purpose. Such debentures or other similar obligations shall constitute a prior lien upon the free assets of the said banks, and shall be in such form and denominations, and subject to such terms and conditions of issue, maturity, rate of interest,

and time of payment as the Secretary of the Treasury and the Federal Farm Loan Board may prescribe: *And provided further*, That the rate of interest shall not exceed 6 per centum per annum: *And provided further*, That all such obligations shall be payable on or before December 31, 1923. The debentures or other similar obligations issued under the provisions of this section shall be prepared by the Secretary of the Treasury. Any expenses incurred in the preparation and delivery of such debentures or other similar obligations shall be paid by the Secretary of the Treasury from any funds in the Treasury not otherwise appropriated: *Provided, however*, That the Secretary shall be reimbursed for such expenditures by the Federal Farm Loan Board through assessment upon the Federal land banks in proportion to the work executed.

“The Secretary of the Treasury is authorized, in his discretion, upon the request of the Federal Farm Loan Board, from time to time during the years 1921 and 1922 to purchase at par out of the net earnings derived by the United States from the Federal reserve banks prior to December 31, 1922, debentures or other similar obligations issued by any Federal land bank pursuant to the provisions of this section: *Provided, however*, That the aggregate of such obligations so purchased and held by the Secretary of the Treasury at any one time shall not exceed \$100,000,000. Any Federal land bank may at any time repurchase at par and accrued interest for the purpose of redemption any debentures or other similar obligations so purchased from it and held in the Treasury. The debentures or other similar obligations of any Federal land bank so purchased by the Secretary of the Treasury and held in the Treasury under the provisions of this section shall be redeemed by such banks at par and accrued interest on or before December 31, 1923.”

SEC. 4. That all acts or parts of acts inconsistent with this act are hereby repealed, and this act shall take effect upon its passage. The right to amend, alter, or repeal this act is hereby expressly reserved.

[S. 4575, Sixty-sixth Congress, third session.]

A BILL To amend certain sections of the Federal reserve act and of the Federal farm loan act for the purpose of further encouraging the development of agriculture and the production of foodstuffs and other staple agricultural products.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the Federal reserve act, approved December 23, 1913, be amended by adding to the second paragraph thereof the following proviso:

“*Provided, however*, That the Secretary of the Treasury in his discretion may use not to exceed \$60,000,000 of the net earnings which shall be derived by the United States from the operation of the Federal reserve banks in any one year to purchase debentures or other similar obligations issued by the Federal land banks under the provisions of this act.”

SEC. 2. That the Federal farm loan act, as originally passed and as subsequently amended, is hereby further amended by inserting in the first section of section 12 thereof after the word “loans” the following: “other than those authorized under the tenth subdivision of section 13 of this act,” so that that sentence shall read as follows:

“That no Federal land bank organized under this act shall make loans other than those authorized under the tenth subdivision of section 13 of this act except upon the following terms and conditions:”

SEC. 3. That the Federal farm loan act is hereby amended by adding at the end of section 13 thereof a new paragraph reading as follows:

“Tenth. Subject to such restrictions, limitations, and conditions as shall be imposed by the Federal Farm Loan Board, and under such rules and regulations as the said board shall prescribe, to make loans based on staple agricultural products or live stock out of such funds as it may derive from the sale of its debentures or other similar obligations issued pursuant to the provisions of section 32 of this act as amended. Such loans may be made to any individual, partnership, corporation, or association, including any producers’ cooperative association or cattle loan association engaged in producing, purchasing, carrying, or marketing staple agricultural products or in raising, fattening, or marketing live stock, or to any bank, banking association, or banker which has made loans on staple agricultural products or live stock to any individual, partnership, corporation, or association, and all such loans shall be secured by the pledge of such products or live stock or by warehouse or other similar receipt conveying security title to such products or live stock, under such rules and regulations concerning these loans and the character and extent of the security as the Federal Farm Loan Board, in the exercise of its lawful powers, may prescribe and approve. Loans made under authority of this subdivision shall be for periods not to exceed six months when based on agricultural products and for periods not to exceed one year when based on live stock.”

Sec. 4. That the Federal farm loan act, as originally passed and subsequently amended, be further amended by adding at the end of section 32 thereof the following:

"That on and after the date on which this act shall become effective the Federal land banks, subject to the approval of the Federal Farm Loan Board, are authorized to issue and sell to the Secretary of the Treasury and other purchasers debentures or other similar obligations, bearing interest not to exceed 6 per centum, the proceeds of which shall be used to make loans as provided in the preceding section of this act. Such debentures shall constitute a prior lien on the free assets of said banks and shall be in such form and denominations and subject to such terms and conditions of issue, maturity, and interest, not exceeding 6 per centum, and time of payment as the Federal farm loan board may prescribe with the approval of the Secretary of the Treasury. The debentures issued under the provisions of this act shall be prepared by the Secretary of the Treasury. Any Federal land bank may at any time repurchase at par and accrued interest for the purpose of redemption any debentures so purchased by it and held in the Treasury."

[S. J. Res. 222, 66th Cong., 3d sess.]

Joint Resolution Relating to the use of net earnings derived by the United States from the Federal reserve banks in the years 1921 and 1922, being the earnings accrued and accruing during the years 1920 and 1921.

Whereas it is anticipated that the net earnings derived by the United States from the Federal reserve banks during the years 1921 and 1922, being the earnings accrued and accruing during the years 1920 and 1921, will exceed \$100,000,000; and

Whereas such earnings are derived from interest charges collected from the borrowing public; and

Whereas it is deemed to be in the public interest at this time that such earnings should not be withdrawn from the use of productive industry; and

Whereas there is a scarcity of credit for the orderly marketing of farm products and the production of live stock: Therefore be it

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled*, That the Secretary of the Treasury, in his discretion, may use not to exceed in the aggregate \$100,000,000 of the net earnings which shall be derived by the United States from the Federal reserve banks during the years 1921 and 1922, being the earnings accrued and accruing during the years 1920 and 1921, as hereinafter provided.

Immediately upon the receipt by the Treasury in 1921 of such net earnings for the year 1920, and the receipt in 1922 of such net earnings for the year 1921, the Secretary of the Treasury shall advise the Federal Farm Loan Board of the amount available for the purposes hereinafter designated, and the Federal Farm Loan Board shall thereupon immediately allot the same to the several Federal land bank districts in proportion to the needs of such districts for the purposes prescribed.

The sums so allotted to the several Federal land bank districts shall, upon the request of the Federal land bank of any district, approved by the Federal Farm Loan Board, be placed with such Federal land bank as financial agent of the Government of the United States to be used for the purpose of purchasing paper based on staple agricultural products or live stock.

Any Federal land bank as such financial agent may purchase, in the name of the Government of the United States, with the funds so deposited from banks within its district, whether members of the Federal reserve system or not, paper based on staple agricultural products in the hands of the producer or on live stock according to regulations to be prescribed by the Federal Farm Loan Board.

No loan purchased under this act and based on agricultural products shall be for a period longer than nine months, and no loan based on live stock shall be for a period longer than two years.

No Federal land bank shall purchase from any bank, under the provisions of this act, paper in an amount greater than three times the capital and surplus of the selling bank, nor shall any paper be purchased from any bank located in a reserve city.

All loans purchased under the provisions of this act shall be indorsed and guaranteed unconditionally by the bank selling the same to the Federal land bank.

Loans purchased under the provisions of this act shall bear interest at the rate of 6 per centum per annum payable in advance, if the loan be for a period of six months or less; if for a longer period than six months, payable semianually in advance, but any borrower, under the provisions of this act, may be charged for the expenses incident to his loan a sum to be approved by the Federal Farm Loan Board, not exceeding an amount equal to 2 per centum per annum for the period of the loan, of which 1½ per

centum may be retained by the indorsing bank and one-half of 1 per centum by the Federal land bank making the loan.

No loan shall be purchased by any Federal land bank, under the provisions of this act, which exceeds 85 per centum of the cash value of the staple agricultural products or live stock by which such loan is secured.

Any paper purchased by any Federal land bank as herein authorized may be by such bank renewed or extended wholly or in part and the proceeds of any paper collected may be by the proper Federal land bank reinvested as herein authorized: *Provided*, That no paper shall be so renewed, nor shall any loan be so made, as to create a maturity later than January 1, 1924.

The several Federal land banks shall so administer the trust as financial agents of the Government as to complete their transactions hereunder as near as may be by January 1, 1924, and shall forthwith thereafter account for and pay over to the Treasury all moneys collected, both principal and interest.

Such money when paid into the Treasury shall be subject to the uses prescribed by the second paragraph of section 7 of the act approved December 23, 1913, known as the Federal reserve act, for the net earnings derived by the United States from Federal reserve banks.

**The CHAIRMAN.** This hearing is on three bills, two introduced by Senator Sterling, Senate Bill 4563 and Senate Joint Resolution 222, and another, S. 4575, introduced by Senator Hitchcock. Judge Lobdell is present, and the committee will be glad to hear his views with respect to these bills.

**Senator HITCHCOCK.** Mr. Chairman, these bills are substantially the same in purpose, and it seems to me we should hear Judge Lobdell not on the terms of the bills, but on the principles of them.

#### STATEMENT OF HON. CHARLES E. LOBDELL, MEMBER OF THE FARM LOAN BOARD.

**Senator PAGE.** Judge, will you please tell us who you are, so that we may get your status.

**Mr. LOBDELL.** I am a Kansan; at present member of the Farm Loan Board or Commission.

**Senator PAGE.** You are a banker, are you?

**Mr. LOBDELL.** Yes, sir.

**Senator PAGE.** Connected with what bank?

**Mr. LOBDELL.** The First National Bank of Great Bend; that is the institution with which I was actively connected.

**Senator PAGE.** And your line of discount is largely cattle paper?

**Mr. LOBDELL.** No, sir; we are hardly in the cattle country. Our line of discount there is more largely foreign paper from grain producers.

**Senator PAGE.** Do you mean farm paper, secured on grain farm paper or secured on real estate?

**Mr. LOBDELL.** Grain or personal endorsement.

**Senator PAGE.** This is a departure from all the enactments, or the laws we have heretofore made with regard to security for loans, is it not? Is there any other law, Senator Sterling, that provides for loaning on cattle as security?

**Senator STERLING.** No, I think not.

**Senator PAGE.** This provides for loaning on cattle on two years time, does it not?

**Mr. LOBDELL.** Yes, sir. I think there is a difference, if I am not in error between the two measures in that respect. The Hitchcock measure provides for one year and Senator Sterling's for two. This is a gratuitous expression, but our institution is on the border line

between the grain and cattle countries, and the making of loans on chattel mortgage on cattle herds is a major business with the banks in the cattle country, and that class of paper affords a very large percentage of the discount of the reserve banks with the banks in the reserve city, Kansas City, which is our reserve city.

Senator PAGE. You limit your rate to 6 per cent under this bill I see. Is it not true that to-day we can go into the market and buy Government bonds that pay 6 or 6 odd per cent?

Mr. LOBDELL. I think they are selling on about that basis.

Senator PAGE. Payable in one or two years?

Mr. LOBDELL. Yes, sir.

Senator PAGE. Then there has got to be some special inducement when you come to a purely dollars and cents basis, to take paper secured on cattle paid in two years, and the general purchasing public are not likely to take this paper as against Government bonds drawing 6.61 or 6.62, are they?

Mr. LOBDELL. I think the question answers itself, Senator. Frankly, I would not.

Senator PAGE. That is all. I wanted to bring that point out so that I would know what the status is.

The CHAIRMAN. Do you not know that the Secretary of the Treasury buys these debentures?

Senator PAGE. No, I do not know it; except where they are secured on real estate.

The CHAIRMAN. Oh, yes; he buys them all. This is not a proposition to loan on real estate. This provides for the purchase of \$100,000,000 worth of these debentures, secured by loans on cattle.

Senator PAGE. And it is on that point that I would like to have light.

Senator STERLING. May I ask this question: Does the bill, or resolution, 222, provide for debentures at all, or provide for the issuance of debentures?

Mr. LOBDELL. Well, Mr. Chairman, and Senator Sterling, the bill 4563, of which you are the author [Senator Sterling] is entirely similar in its general scope with that introduced by Senator Hitchcock. Both of them provide for debentures, as indicated by your chairman.

Senator STERLING. Those bills do, but I would like to state, as far as I am personally concerned, that I am not relying on either of the bills I first introduced. Those bills were amendments, respectively, to the Federal farm loan act and to the Federal reserve bank act.

Those bills were submitted to the Federal Farm Loan Board by the chairman of this committee and also to the Federal reserve bank people, I suppose. Having been submitted, I received a communication from the Federal Farm Loan Board calling my attention to certain features of these bills which they could not quite approve of, and I visited the Federal Farm Loan Board, and as the result of an interview there—we went over the matter—the members of the Federal Farm Loan Board then prepared substantially this joint resolution 222. The other bills do provide for the issuance of debentures; this does not. Senate Joint Resolution 222 provides for allotment by the Federal Farm Loan Board to the several Federal Farm Loan Banks throughout the country in proportion to their needs, or to the needs of the district which they serve. So there is

no debenture provided for at all. The local bank, whether a member of the Federal reserve system or not, may present its paper for rediscount at the Federal farm loan bank; is that not correct?

Mr. LOBDELL. That is the substance of it.

Senator STERLING. That is the theory of the resolution which I submitted.

Senator HITCHCOCK. Suppose you state the substance of your objection to the issuance of debentures, Judge.

Mr. LOBDELL. I outlined this briefly in a letter to your chairman. The Farm Loan Board was reluctant to have this undertaking imposed on the Federal Farm Loan System for two reasons, which we regarded as substantial, under the provisions of the bills introduced respectively by Senator Hitchcock and Senator Sterling. The first reason was that our institutions are organized and equipped with a personnel and business machinery for making loans on farms. The inspection of a farm and the determination of its basic value as security is entirely a different proposition from making a cattle loan. We are not equipped in our organization to give, in the making of cattle loans, if we had to make the loan direct from the bank, proper service.

These bank districts are large. They comprise from four to seven or eight States. In Senator Gronna's district, for instance, and in Senator Henderson's the farmers live seven or eight hundred miles from the seat of the bank. It is impossible to have any personal contact with that farmer or to scrutinize his security except by building up the machinery which we do not have and which would be slow and troublesome.

Senator PAGE. One word there. And still all these farm-loan banks would be beholden to respond to this cattle paper, would they not?

Mr. LOBDELL. I am coming to that, Senator, if you will pardon me. That was our first objection. We did not feel equipped to handle it in the way prescribed. The second objection was to the provision for the debentures, and especially that feature of it which provides that the free assets of the bank—which means their capital and their earnings—shall be liable for those debentures issued against cattle paper. We felt, and do feel earnestly, that those free assets are already morally pledged for the three hundred and forty and odd millions of farm-loan bonds that are outstanding, and that they could not in good conscience be taken from under those securities and placed under others.

Senator HITCHCOCK. The use of the term "the free assets of the bank" indicates that it is not intended to affect any which are already engaged?

Mr. LOBDELL. Well, I do not know that I have made myself clear. They are physically pledged for the whole bond issue. On each issue of the farm-loan bonds there is pledged a corresponding amount of mortgages or Government securities. The bonds of each bank are underwritten by each of the other 11, and the purchaser takes into consideration the financial strength of each bank when he buys the bonds. He has in addition to the pledge of farm mortgages the capital and surplus and undivided profits of the bank from which his bond may be paid if the security fails. There is not only those assets of the issuing bank, but by special engagement and by pro-

vision of the farm-loan bank the bonds or assets are of the same nature in each of the 12 banks. Those are necessary inducements, it seems to us, in the purchase of farm-loan bonds, and we feel that it would hardly be fair to those who have purchased them on the faith of the combined assets of the institution to place those free assets—which is a proper term—behind a different security.

Senator HITCHCOCK. Your assets are constantly increasing, are they not?

Mr. LOBDELL. They are constantly increasing, yes, sir; in the shape of the accumulated earnings above expenses.

Senator HITCHCOCK. Now, the plan which you favor, as suggested in this joint resolution, makes the loan to the farmers a Government loan?

Mr. LOBDELL. Yes, sir.

Senator HITCHCOCK. So the Government is going into the money-lending business directly, virtually, whereas we have always considered that very highly objectionable; we have always done so heretofore.

Mr. LOBDELL. That is true as a matter of policy.

The CHAIRMAN. What was the last remark you made?

Mr. LOBDELL. I say I do not take issue with Senator Hitchcock in the matter of the policy of the Government loaning money, as a broad proposition.

Senator HITCHCOCK. Let me get myself clear on the matter. Heretofore the Government has extended aid to the agricultural classes, but it has been by loans from banks, and this resolution proposes that the banks shall merely act as the agent for the Government in loaning money direct to the farmer?

Mr. LOBDELL. No, sir; pardon me—

Senator HITCHCOCK. Well, loaning money to the farmer through another bank?

Mr. LOBDELL. Yes.

Senator HITCHCOCK. But, nevertheless, this provides for a government loan to the farmer, and is that not an objectionable step? Should there not be an intermediary in the shape of—as we have it in the case of real estate loans; the Government is behind the farm loan bank; but it is the farm loan bank, with all its capital, that really makes the loan on the security of real estate. Ultimately we know the Government is behind it and supervises it, but after all it is the bank that makes the loan. Now, should we not maintain that same status, or that same fiction, if you please, with regard to personal loans advanced to agricultural interests?

Senator STERLING. May I ask if that is not just about precisely the situation here. The local bank takes this paper, that it takes from the stockmen or the farmer, and disposes of that paper to the farm land bank?

Senator HITCHCOCK. No; to the Government.

Senator STERLING. Oh, no.

Mr. LOBDELL. The farm land bank is the agent for the Government.

Senator STERLING. It provides—

Any Federal land bank may at any time repurchase at par and accrued interest for the purpose of redemption any debentures so purchased by it and held in the Treasury.

Senator HITCHCOCK. Heretofore it has always been considered very obnoxious that the Treasury should lend to an individual public money, and we have always avoided it by having the Treasury advance the money.

The CHAIRMAN. On chattel mortgages.

Senator HITCHCOCK. And on anything else, even on real estate mortgages the Treasury has never taken a loan directly, and it has not done it indirectly, from an individual, but the Secretary advances funds to the recognized agency, who in turn under the supervision of the Government has advanced it to the interests.

Senator STERLING. But the Government is ultimately behind it.

Senator HITCHCOCK. Yes.

Senator STERLING. It does not differ much in principle then from this. I can not see the difference.

Senator HITCHCOCK. I simply wanted to bring out that fact.

The CHAIRMAN. Not only that, but you are making commercial banks of these land banks, are you not, Judge?

Mr. LOBDELL. We sought to avoid that, Mr. Chairman.

The CHAIRMAN. Would it be six months' paper?

Mr. LOBDELL. Mr. Chairman, if you will just let me finish one thought that I had in reference to this original bill, I will be a trifle more logical. In addition to the objections which occurred to us, and which I have already suggested, the board feels keenly that the paramount purpose, the real purpose, or the sole purpose, of its organization is to supply credit on farm mortgages; that the funds for that use, of course, can only be obtained by the sale of farm-loan bonds, and we are much impressed with the thought that if it became known, if it were a fact, if the duty were imposed on us and it became known to the investing public that the Federal land banks were issuing another and different type of security for which their assets were pledged, which were based on personal security, however good, the psychological effect on the bond-buying public would be very detrimental to our major operations, and in large measure hamper our real purpose.

The CHAIRMAN. As a matter of fact, would it not be a breach of good faith?

Mr. LOBDELL. I thought so, Senator. I think in addressing you before, Mr. Chairman, I used the expression that we felt good conscience would not permit that these free assets should be placed behind a different security.

And now those are the objections, not to the policy of recognizing an emergency in the condition of the agricultural community and to placing these Federal reserve earnings at their disposal through some channel. Those are questions of public policy which belong to you gentlemen, and with which we are not called upon to deal except as you present them to us.

Senator HITCHCOCK. The provision that you criticise, or which you are expressing your doubts about, is the one to the effect that the debentures shall be a lien on the free assets of the bank?

Mr. LOBDELL. Yes.

Senator HITCHCOCK. If that clause could in some way be altered, would that remove your objection?

Mr. LOBDELL. It would remove a very strong objection, but it would still leave the problem, Senator, of the psychological effect—if I may repeat that term—on our farm-loan bonds, of putting us into two classes of business for which we will become liable.

The CHAIRMAN. There is no machinery at present for that sort of business, is there?

Mr. LOBDELL. No, sir; and if you will pardon the suggestion, if you eliminate the free assets of the bank from the support of your debentures, based on cattle and grain and cotton paper, you have not anything left except the paper, and that the Sterling resolution gives you.

Senator HITCHCOCK. Now, you say, Judge Lobdell, that you are one of the board here in Washington. Are there five or seven members?

Mr. LOBDELL. Five; four appointed members and the Secretary.

Senator HITCHCOCK. The Secretary of the Treasury?

Mr. LOBDELL. Yes, sir.

Senator HITCHCOCK. And you have substantially the same regulatory control over the Federal farm-loan banks that the Federal Reserve Board has over the Federal reserve banks?

Mr. LOBDELL. Yes, sir.

Senator HITCHCOCK. And those farm-loan banks, 12 of them in number, are situated in different parts of the country with particular regard to reaching the agricultural classes?

Mr. LOBDELL. Yes, sir.

Senator HITCHCOCK. You have an organization in each of those banks for classifying the farms on which you make loans, for examining titles, and for advancing the money under the loan, upon those farms; you have that machinery now in each of those banks, have you not?

Mr. LOBDELL. Yes, sir.

Senator HITCHCOCK. In making those investigations, I assume you have obtained a large knowledge with respect to crops and farm products?

Mr. LOBDELL. We think very accurately; yes, sir.

Senator HITCHCOCK. That is the representative in those banks. Now, the question I want to put to you is, are those farm-loan banks therefore not well qualified to judge of the farm products, either live stock or grain or cotton, and as well the time the loans are needed?

Mr. LOBDELL. Yes, sir; I think so, broadly speaking—speaking of the general community; yes, sir.

Senator HITCHCOCK. You are located in those agricultural regions, and I want to ask you whether it could not in some way be arranged so that your farm-loan banks, possessing all of that agricultural knowledge, all that knowledge of agricultural resources of the region, could not approximate the value of the real estate, or approximate the production of each acre, you having at hand the knowledge of the value of the crop—whether you would not be in a position at least to purchase from the small agricultural bank of that region loans which they might make to the farmers with the security of warehouse receipts or chattel mortgages?

Mr. LOBDELL. Yes, sir; I think so.

Senator HITCHCOCK. Now, that has been exactly my idea, Mr. Chairman; that while these banks were originally designed to loan upon real estate, if you will remember we seriously considered at the time whether we should not add to their powers the power to loan on personal property, to make advances on personal property, because their officers and their employees were in constant contact with the agricultural interests, and would be in a position to have a knowledge of the products which came from those farms.

Senator PAGE. May I ask you a question, Senator? Does that fact, the fact that they do have a knowledge, take this out of the realm of bad faith when you, in a way, cloud all farm loans that are being sold around the country from one end to the other; is there not a measure of bad faith there which is going to injure the standing of your farm-loan mortgages?

Senator HITCHCOCK. I am not disposed to raise an issue upon that point. I think that can be avoided. I think that can be eliminated. But the point I want to make is that those loans on the personal security to farming interests perform very much the same service to the public that the real estate loans do; that is, they equip the agriculturist to produce food for the people of the United States; they promote it, and it was seriously considered by the committee at the time the Federal farm-loan bank act was enacted whether or not we should not do as they have done in Europe, equip those banks also to make personal loans, because the purpose is exactly the same as that which governs a real estate loan.

Senator PAGE. But we did not so equip them, and we laid down a standard for the major security of those banks, and we diminished that security. We lower the standard, do we not, if we make those banks responsible for chattel mortgages?

Senator HITCHCOCK. But my judgment is, as a matter of fact, that that is not the case. As a matter of fact, we will add to their assets more than we add to their liabilities. But I am willing to adopt some changes in this legislation proposed as will obviate that danger. I do not believe in doing anything that smacks of bad faith in any degree. I am merely emphasizing the fact that those banks are located in an agricultural region, and that they are so situated that their officers and agents have a knowledge of agricultural facts and conditions, and that they are in an admirable position to judge of agricultural paper.

Senator PAGE. Nevertheless, Judge Lobdell laid it down as a fundamental fact that it smacked of bad faith to link those two together.

Senator HITCHCOCK. No; he thinks it would be bad faith for us to provide that the debentures shall be a lien on the free assets. I am proposing to obviate that, when the time comes for that criticism, and get rid of it in some way. I realize that the criticism may have some foundation in theory if not in fact. It might cast a cloud on these bonds, but I am proposing to obviate that difficulty, and having obviated it, I am putting to Judge Lobdell the question whether or not those banks are not admirably equipped to examine this paper and to pass upon it and judge as to the credit of the men who make the paper, and the banks through which the paper comes.

The CHAIRMAN. You require 50 per cent limit when you loan on real estate, 50 per cent of the value. You propose 85 per cent in making a loan on cattle for two years.

Senator HITCHCOCK. I do not propose it for two years.

The CHAIRMAN. How much of this \$100,000,000 do you think you would get back into the Treasury of the United States in two years?

Mr. LOBDELL. Practically all of it, Senator. I think that the conservative handling of that paper, for instance, on cotton on the basis of 85 per cent of the cash value of the product at the time, properly scrutinized and followed up, would be collectible paper.

Senator KENDRICK. That would not, however, prove true in view of the recent very heavy decline, would it?

Mr. LOBDELL. It would if it were taken and actively followed up, keeping in mind the decline in the market. I am not making that statement in contemplation of the present values.

Senator FLETCHER. Is it not the idea very largely by this resolution to assist the local banks?

Mr. LOBDELL. Yes, sir.

Senator FLETCHER. Now, under the Federal reserve system these banks can make loans on agricultural products, but this resolution here authorizes the Federal land banks to buy paper from the local banks, no matter whether members of the Federal reserve system or not, secured by agricultural products, and give the local banks 2 per cent, with 1½ per cent retained by the indorsing bank. It seems to me you simply divide your system in dealing with the local banks and helping out the local banks without actually helping the agriculturalist to any extent.

Senator HENDERSON. The bill provides that loans may be made to individual banks.

Senator STERLING. No; not the joint resolution; the bill. The bill allowed direct loans to the individuals.

Senator HENDERSON. Under Senator Hitchcock's bill there is the same provision, and he has not abandoned his bill, as I understand. There is in Senator Hitchcock's bill the same provision, that loans may be made to individuals, etc., or to banks.

The CHAIRMAN. The Senator has abandoned his bill.

Senator HENDERSON. He has not abandoned his bill.

The CHAIRMAN. I do not know that I had any reason to use the word "abandoned," but I understood the Senator to say he preferred this resolution.

Mr. STERLING. Yes. Mr. Chairman, I would like to state briefly, if I may, the genesis of this resolution.

Some weeks ago I visited the governor of the Federal Reserve Board. I took with me a number of letters and a number of petitions from people in my State urging that something be done to relieve the situation as it was a deplorable one. The stockmen and bankers were especially affected and did not know what they were going to do. I took the matter up with Gov. Harding, and he suggested in the main the substance of the two bills I first drew up, at that time, namely, a bill that would amend the Federal reserve bank act and one that would amend the Federal loan act and allow the issuance of debentures, the object being, of course, to utilize the \$100,000,000 of net earnings of the Federal reserve banks for this purpose, temporarily. Gov. Harding then later, I think—Perhaps Senator Hitchcock then had seen him meanwhile—prepared those two bills and I received

carbon copies of them. I introduced them. Senator Hitchcock has embodied in one bill, I think, the two bills which I introduced. They might as well have been consolidated in one bill, as far as that is concerned. I thought of it at the time, but since they had been handed to me as separate bills, I introduced them in that way.

Senator HITCHCOCK. I may say that I received them also in the same way you did, but I thought it preferable to consolidate and simplify the matter.

Senator STERLING. I think, perhaps, you are right with regard to that; they could have been embodied in one bill. I introduced them in two. They required, however, an amendment to each one of the acts.

The bills were referred to this committee and the chairman of the committee referred them then in turn to the Federal Farm Loan Board, and to, I suppose, the Federal reserve bank people. Then, within a day or two after their reference, I received notice from Judge Lobdell that they had been considering the bills, and that they found objections to them, just such objections as Judge Lobdell has stated to-day, namely, that the debentures would be a lien, or construed to be, on the free assets of the bank, and that another objection was that it provided for loans direct by the Federal farm loan banks, and I appreciated those objections.

I went to the office of the Federal Farm Loan Board and took the matter up with Judge Lobdell and Mr. Lever, who was there at the time of the first visit, and then it was agreed that something be prepared by the Federal Farm Loan Board, and this resolution is the result of the conference and the work.

Judge Lobdell and Mr. Smith visited me at my office and brought this resolution, and this is the same resolution they brought save that I changed the matter of profits; it was a half-and-half proposition before, and I thought the local banks who had the responsibility and who would bear the burden, ought to have  $1\frac{1}{2}$  of the 2 per cent allowed for profit, and that one-half of 1 per cent would compensate a Federal farm loan bank.

Senator HENDERSON. Is there not a difference with respect to the security provided for under the resolution 222 and the bills?

Senator GRONNA. Yes.

Senator HENDERSON. Under the resolution, as I understand you have drawn it, the Federal land bank, as the financial agent of the Government, may purchase?

Senator STERLING. Yes.

Senator HENDERSON. Under the bill the Federal land bank may loan to the local bank?

Senator STERLING. Yes.

Senator HENDERSON. In that case the Federal land bank, as the bank of that local district, sells the paper that that bank takes from the farmer or the agriculturist?

Mr. LOBDELL. The resolution requires that all paper purchased from the bank—

Senator HENDERSON. That is true; but under the resolution you have the security taken by the bank from the live-stock man or the farmer, but you have not the bank back of that security, as I understand?

Mr. LOBDELL. Oh, yes.

Senator HENDERSON. I thought the Federal land bank was the agent?

Senator STERLING. Let me say in this connection that I submitted two bills I first introduced to the Secretary of the Treasury; I took that responsibility. I think that was before I introduced the bill, and I received a letter from the Secretary of the Treasury opposing very vigorously the bill. Then when Judge Lobdell and Commissioner Smith came to my office they brought two forms, one providing that the Federal reserve bank should be the medium through which those loans should be made, and the other the Federal Farm Loan Board. I took the view that there would be less objection to the Federal Farm Loan Board than there would be to the Federal reserve bank.

Senator GRONNA. What position do the governor of the Federal Reserve Board and the Secretary of the Treasury take with reference to Senate joint resolution 222?

Senator STERLING. I do not know. The chairman of the committee said that he had submitted the matter to them but had not heard from them.

The CHAIRMAN. I have not heard from them. I had expected to receive a reply.

Senator GRONNA. I do not want to take the time of Judge Lobdell because I want to hear from him, but I would like to say that I do not suppose there is any community that is more adversely affected by present conditions than the State which I in part represent, and as one who has had a wide experience in personal securities, in my judgment, neither of the bills proposed is workable.

I would like to say that while you are here, Judge Lobdell—because I want to be perfectly frank about it; that is simply my opinion—it may not be worth anything, and that is one reason why in its present form I can not favor it. Another reason is, as stated by Judge Lobdell, I would not be willing to confuse the personal security with the real estate security because I know of no better way to destroy the entire system of the Federal farm loan organization than that. I agree absolutely with Judge Lobdell that we ought not to issue any debenture bonds based on personal security because, as every man who has had anything to do with personal security knows, while it is security, it is only security for the local man who can watch it, and it needs watching just like a mother is watching a baby, and that is exactly the condition of personal security.

Senator PAGE. You are right about that.

Senator HITCHCOCK. Will you allow me to interrupt you there? Suppose the Federal farm loan banks were limited to the purchase of this farm paper secured by chattel mortgage or warehouse receipts from country banks, and the country banks were required to give their guaranty in selling the paper; would that retain the country banks as the guardian to watch the proceedings?

Senator GRONNA. If we do anything at all we would have to ultimately place a burden and responsibility upon the local institutions, their banks or trust companies.

Senator STERLING. That is what this does.

Senator FLETCHER. Why not do that independently? Why involve the farm loan system in that proposition? If it is proposed to help the banking institutions, the commercial banks, let us help them directly in some way.

Senator GRONNA. Of course helping the banking institutions means something to the farmers. If there is any way that they can do that, it will have my support.

I think what this committee should do—if you will pardon me for making this suggestion; I am just a humble member of the committee—but I think the first thing we ought to do is to repeal absolutely the law which exempts the bonds of the joint-stock land banks and thereby perhaps more speedily get a decision from the Supreme Court as to the validity of this law affecting the bonds of Federal farm loan banks.

Senator HITCHCOCK. You mean the stock companies, not exempt the stock banks, but the joint-stock companies?

Senator GRONNA. The joint-stock land banks is what I am speaking of. We ought to repeal that law. I say that for this reason: I am in favor of preserving that law if possible, as it has done a world of good, and that must be recognized by every man to-day, whether he does a business on a small scale or a large scale. Such a man as Lew Hill said that he did not know what would have happened in the western country if it had not been for the Federal farm land banks, and I think we should guard that law, or that system most carefully. We can only make it possible for the Federal farm land bank to exist by throwing all safeguards possible around it. The joint stock land bank is simply a commercial proposition.

Senator FLETCHER. Except that they are limited in their interest charge to 6 per cent.

Senator GRONNA. I know, and we all know, Senator Fletcher, how it has operated. I may be mistaken, but I believe that that is one of the handicaps, or would be one of the handicaps to the Federal farm land banking system. If you repeal the law; or if we modify the law so that the bonds of the joint-stock land banks are not exempt from taxation, let them go ahead and do business if they want to. I want to deal fairly with them, because I asked them into this system, and I want to manifest good faith. I do not want to be the one who would be unfair to them, and I do not desire that they should lose any money through the operation of this law. Let it work out as best it can, but we ought not in the future to permit it.

I do not know what the Supreme Court will do and I do not suppose anybody does, but I believe we will hasten the decision of the Supreme Court, and we ought to do it.

Senator HITCHCOCK. Mr. Chairman, did we not report a bill relating to joint-stock land banks?

The CHAIRMAN. We reported favorably on permitting them to dissolve, permitting them to retire. How many did retire I do not know.

Mr. LOBDELL. If you will pardon me, Mr. Chairman, you reported a bill, if I am not in error, introduced by Senator Smoot, compelling their liquidation, and on a hearing which you gave afterwards to the joint-stock people, there was some discussion with respect to recalling that bill to your committee. My impression is that the bill is still on your calendar.

Senator STERLING. It is on the calendar; it was reached yesterday. It was reached on the calendar for consideration.

Mr. LOBDELL. If I am not intruding, Senator Gronna introduced a counter bill, not compelling liquidation but repealing the tax exemp-

tion, and providing for liquidation. You struck out the first section and passed merely on the liquidation provision.

The CHAIRMAN. That was passed?

Mr. LOBDELL. Yes, sir.

Senator GRONNA. My bill became a law.

Mr. LOBDELL. Yes; that was enacted.

The CHAIRMAN. Do you know how many of those banks have been liquidated?

Mr. LOBDELL. Three of them.

Senator STERLING. One argument of the joint-stock bank is that they are unable to loan in larger amounts than the regular farm land bank?

Mr. LOBDELL. Yes, sir; and the Federal bank could be given the same authority.

Mr. Chairman, recurring, if I may, to the subject matter to which I was invited here, Senator Sterling will, I think, bear witness that the Farm Loan Board preferred, in the parlance of the street, to "pass the buck," and that we suggested, rather earnestly, that wherever "Federal Farm Loan Board" appears in this joint resolution, or "Federal land bank," that it be stricken out and "Federal Reserve Board and Federal reserve bank" be substituted. In fact, we prepared, as the Senator, I think, stated, two resolutions expressing the idea.

Senator FLETCHER. I am inclined to think you are right about that.

Mr. LOBDELL. I do not withdraw in the least what I said in response to Senator Hitchcock. Our organizations are of necessity, I think, in closest touch with each individual agricultural community of any existing organization. It is our business—and when I say our I mean the system as a whole—it is our business to know how much cotton they have got, when they are going to sell it, what they can get for it, and the same with respect to other products, because we look to their interest payment and keep the machines going. We have practically 4,000 organizations and a very fair source of information; but we are not ambitious to engage in this undertaking, and, if I may be pardoned, we are fully advised as to the strain on the agricultural communities, and it can not be exaggerated.

Prosperous grain farmers made up their budget in June with the harvest in sight, the yield that they could guess very closely, on the basis of \$2 a bushel at least for wheat. Unfortunately, many of them borrowed money, some for luxuries and many for farming necessities, on the basis of the cash that they seemed to have in hand. The depreciation of wheat was from about \$2 to \$1.25, Senator, I think, in the country markets?

Senator GRONNA. Yes.

Mr. LOBDELL. That took away a percentage of what seemed to be cash in hand, and it has borne very, very heavily not only on the farmer but on the country bank, and has been reflected through the farmers on the local commercial community. They need credit.

The CHAIRMAN. That applies to pretty much every industry, does it not?

Mr. LOBDELL. I think it applies throughout all the business activity, but I speak solely with respect to the farming community, because we deal with that essentially.

Senator KENDRICK. With this exception, it applies: The industries of the country that were better organized have found it possible to suspend the processes of production and by that very means lessen the losses that otherwise would come to their particular line of products.

The CHAIRMAN. Yes; I refer not to manufactured products, but to cotton, wool, and other agricultural products.

Senator KENDRICK. And the processes of production extend over a period of years, as a rule, and there can not be a suspension. That represents the principal difference.

Mr. LOBDELL. There is just this thought that occurs to me in connection with your decision of the question, that the commercial enterprise turns its product two or three times, as it has two or three marketing periods. The farmer has just one selling period in the year, and that is after he harvests his wheat or cotton. If that crop goes to pieces, the market goes to pieces with it; he can not charge off his loss and clean up again in '90 days or four or five months. He is idle for the year, which is a very essential difference.

Senator KENDRICK. He can not very well let up for a year.

Mr. LOBDELL. No; he can not let up.

Senator KENDRICK. As the manufacturer does and has done.

The CHAIRMAN. Was the propriety of keeping this money in the Federal reserve system and using the member banks of that system suggested to Gov. Harding?

Senator STERLING. Yes.

The CHAIRMAN. What did he say?

Mr. LOBDELL. Mr. Chairman, may I interrupt to ask the Senator a question? In that connection it was suggested on the basis of a direct loan, was it not, by the Federal reserve bank?

Senator STERLING. Yes.

The CHAIRMAN. Of course, the member banks are in a position to judge of the agricultural needs and conditions just as well as the banks that come in contact with them. They have all the machinery.

Senator GRONNA. I was directed, as chairman of the Committee on Agriculture, by my committee the other day to ask the Governor of the Federal Reserve Board and the Comptroller of the Currency for a statement of the actual loans based upon purely farm paper. They have not got it. I had a letter—and I think I can state it in the record—from Gov. Harding saying that he had wired all the 12 banks for that information, and I state this by reason of a statement made by Mr. Glass; Mr. Glass was simply using a summary. My attention was called to one item in a Chicago bank, where they said in an agricultural community \$75,000,000 worth of that paper was loaned to people like the International Harvester Co., which they say is an allied industry to agriculture, and which is classed as agricultural paper. Nobody knows how much money has been loaned up to the present time. It has not been tabulated how much money has been loaned on agricultural paper.

Senator FLETCHER. There has been loaned about \$600,000,000 on so-called agricultural paper alone.

Senator GRONNA. Yes.

Senator FLETCHER. I think it ought to be used through the other banks, and not through the land banks.

Senator GRONNA. I agree with that. I simply wanted to bring this up to clarify the situation because there has been so much misinformation given that so and so has been done, and I know of no better way to find out than simply to go to the people who ought to know, to ascertain how much money has been loaned on actual farm paper by the 12 Federal reserve banks.

Senator STERLING. Let me suggest this: I thought, just as Judge Lobdell intimated a while ago, that the farm land banks would be more apt to know the agricultural needs of the several farm land districts than would the Federal reserve bank people.

Senator GRONNA. I think you are right on that.

Senator STERLING. From their standpoint. The Federal reserve bank loans mostly on commercial paper—what we term commercial paper, not on agricultural paper. They rely on it. That is the basis really of their business, and the reason for their organization, to begin with. Agricultural paper was a concession to begin with.

Senator HITCHCOCK. That was the fight I made, and I am somewhat familiar with it, and I have followed the board to some extent. The amendment we had inserted in the Federal reserve act was as follows:

*Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes, or based on live stock, and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

That was the provision that we got into the act at the time it was passed. It is the thing I made my big fight on.

Now, under that provision the Federal Reserve Board could have instructed the Federal reserve banks only to discount agricultural paper to the extent of 25 per cent of their assets. They could have said 50 per cent of their assets, but they have gone the limit. They have authorized the Federal reserve banks to loan to the extent of 99 per cent of their assets on agricultural paper, and if there has been any failure to discount paper of that character, it has been due to the member banks in not presenting it.

Senator GRONNA. That is true.

Senator HITCHCOCK. I wanted to get that clear, that the law is such, and the action of the board is such, that agricultural paper can be discounted.

Senator STERLING. But to what extent they have discounted that kind of paper we do not know.

Senator GRONNA. The Federal Reserve Board does not know.

Senator HITCHCOCK. Gov. Harding made an estimate in his speech at Indianapolis; he placed it at \$500,000,000.

The CHAIRMAN. The farmer ought not to be compelled to carry his stuff six months or a year longer. It ought to be so that he can get rid of what he has to-day and then sell something to-morrow.

Senator HENDERSON. He wants to get rid of it.

Senator HITCHCOCK. I want to dissent right there to that proposition. My proposition is that a farmer who has spent a whole year in raising his crop—a crop which matures simultaneously in hundreds of thousands of cases, ought not to be compelled by circumstances to dump it simultaneously into the market, into the hands of the middleman. The consumers are not ready for it. The

consumers are going to take a whole year to consume it, and the man who raises it should not be compelled by circumstances to turn it over abruptly to the middleman.

The CHAIRMAN. He should not be compelled to turn it over at a loss.

Senator HITCHCOCK. No. What he should have placed at his disposal is reasonable credit so that he can market gradually in response to the law of supply and demand.

The CHAIRMAN. It would be better for him if he could market it at once at a fair price?

Senator HITCHCOCK. But the circumstances of the case are such that he can not market it gradually. The agricultural regions of the South and the West have no adequate means of credit, and the thing that this country should do should be to give them that credit and not compel them to turn their products over to the middleman. The curse of this country is the middleman. It is the middleman who increases the cost of living. It is the middleman who makes our great cities grow so; it is the middleman who makes life serious for the producers in the country, and inasmuch as the country has got to give credit to somebody to carry those crops a reasonable length of time, it is better to give it to the producer rather than the middleman.

Senator GRONNA. I agree with that absolutely. I am not criticizing any official at all; I am not making my statement for that purpose. In fact, I do not think it is so, but the tendency has been to loan to these middlemen because they are in a position to have either storage receipts, or some property which represents the safer loan, and for that reason the loans have been extended to the middleman rather than to the producer. I agree with Senator Hitchcock that this is a most important question. For that reason I think we should provide credit which would go directly to the producer, and the only way you can get it to the producer, and have it properly nursed, is to put it through the local banks.

Senator HENDERSON. While you and Senator Hitchcock are correct in that statement, I do not see any inconsistency in the statement on the part of the chairman in saying that after all what the farmer wanted was a market. Whether he sells his product to-morrow or a month from now, he wants a market.

Senator STERLING. But not a market in which if he sells he will suffer a great loss.

Senator HENDERSON. Oh, no. But you have to have a market.

The CHAIRMAN. What we want to do is to get our breadstuff to the market at a fair price.

Senator HITCHCOCK. I agree with you fully, but of course, with a crop of eight or nine hundred million bushels that we raise, we are only going to send 200,000,000 bushels to Europe. The great bulk of it is for domestic consumption, and generally more in future years than this year.

The CHAIRMAN. If you can get rid of 200,000,000 bushels to Europe, you would have a demand in this country for the part that is left. Where you fix a fair price on your grain, the longer you hold it the larger your surplus, and the longer you are going to perpetuate buyers in the market for your property. What you want is a sellers market. That is what you have had for four or

five years, and you would like to reinstate it, and it is a difficult proposition.

Senator FLETCHER. It seems we have come up against this situation perhaps: Senator Gronna's idea is that this credit ought to be fed out to the banks, and my idea is it ought to be worked out through the Federal reserve system, or through the farm loan system. I agree with you. The losses that have been made on agricultural products, I apprehend, are not as extensive as they might have been. That is the reason for the fact that there are a number of banks not in the Federal reserve system, and if that is true, is not that a point that we ought to try to work out something from?

Mr. LOBDELL. Senator Sterling provides for that in his resolution.

Senator STERLING. Yes; I provided for that.

The CHAIRMAN. But I do not know whether you had called to your attention or not that in some of the States Federal reserve notes are authorized to be reserved for use in State banks. I think in the great State of New York, and in Pennsylvania, they are allowed to use Federal reserve notes for their reserves. You see, as long as the State bank can do that, it is a great temptation to remain out of the system, because they can turn their gold over, no matter how much they have got, to the Federal reserve system, and substitute Federal reserve notes for their reserve.

Senator KENDRICK. Judge, do you have any information as to what percentage of the Federal reserve banks, member banks, decline to take advantage of the opportunity to rediscount with the Federal reserve system?

Mr. LOBDELL. No, sir; I have not. We have no direct connection with the country banks.

Senator KENDRICK. There are a great many, are there not?

Mr. LOBDELL. Very possibly. I have no information on that subject.

Senator FLETCHER. I believe if we could do away with this rule requiring clearance at par, and allow the collecting bank a small amount for collection, we would get all of the banks into this system.

The CHAIRMAN. But that is impracticable. You can not enact any such legislation, in my judgment, because it puts a tax on business which we want to get rid of in some way, if we can.

Mr. LOBDELL. Mr. Chairman, can I be of any further service to the committee?

Senator HITCHCOCK. You have brought us into the woods and now we would like to have you lead us out.

Mr. LOBDELL. Then I will make a suggestion. The question of whether this accumulation from the earnings of the Federal reserve system shall be put back in the channels of business for the special benefit of the agricultural and live-stock industries is a fundamental question for you gentlemen to consider. Should you be of common mind on that, and should that be your purpose, it seems to me—and this is a gratuitous suggestion on a matter with which I am not called upon to deal—that you can not expect, and you can not get, frankly, any institution as an intermediary, or—you used a better word, Senator Hitchcock—to guarantee this paper to the Government.

The 12 Federal reserve banks would not do it without a consideration. You would have to amend your Federal reserve act to do it.

You would have to amend, as you have undertaken to do, the farm loan banking act, if the Federal land banks were to do it. The only substantial guarantor would be the country bank which, as Senator Gronna expresses it, knows the individual and knows how to nurse him, how to watch him; he is on the ground.

Therefore, it seems to me that if you reach the conclusion to use this money for that purpose, that you must do it through the country bank, and that the Government must be content with the fundamental security and indorsement of the country bank. If you were to do that, and allow us to consult our pleasure, we would prefer that the 12 Federal reserve banks which are practically similarly situated, should be the financial agents to purchase that paper and prescribe the regulations for its purchase, and follow it up, because if that trust were intrusted to the farm loan banks, we would deem it necessary to put inspectors in the field to be watching and constantly following it up. That would have to be done.

Senator HITCHCOCK. Now, then, Judge Lobdell, assuming that that ought to be done, how are we going to reach the thousands of banks, small country banks, that we want to deal with that are not members of the Federal reserve system?

Mr. LOBDELL. If you designate the Federal reserve banks in the 12 reserve districts as financial agents of the Government, and clothe them with the authority, they can purchase, in the name of the Government, that paper from the nonmember banks as easily as anybody.

Senator HITCHCOCK. That gets us back to the objectionable proposition that the Government is loaning money to the farmer.

Mr. LOBDELL. Yes, sir; and in my judgment that is inescapable, if you give this relief. If you apply the money to that purpose, it is inescapable. I mentioned that fact to Senator Sterling.

Senator STERLING. Yes; you did. I would like to ask you, Judge Lobdell, a question. I would like to ask if you think it is advisable to limit the amount of the loan to any one person, firm, or corporation?

Mr. LOBDELL. I would. The loan limits of the country will ordinarily do that. Senator Gronna is familiar with that situation. They are limited under their charter just to a certain percentage of the capital. But I think it would be well to impose a maximum.

Senator HITCHCOCK. What maximum?

Mr. LOBDELL. \$500,000.

Senator KENDRICK. That is exactly my idea. I do not believe the bank itself would sufficiently restrict that loan.

Mr. LOBDELL. That brings another thought to my mind, Senator Kendrick. I think the prohibition there ought to prohibit the purchase by any bank in excess of its legal limits; that is, if a bank is a \$10,000 bank with a \$15,000 loan limit, we ought not to do that.

May I address myself for a moment to what the farm-loan bank would like to have you consider? The farm-loan act, as you recall no doubt, provides for the issuance of farm-loan bonds; that they shall run for a specific maximum and minimum period, payable at the option of the issuing bank after five years. We have found in the market that investors in this class of security are seeking Government investment and that they would look with greater favor on a loan that had a bond that had to run 10 years than one that had to

called after five. I think your experience, Senator Page, will rify that.

Senator PAGE. It would be easier sold, but I should regard the security as less stable.

Mr. LOBDELL. We have now outstanding three hundred and forty odd millions of dollars which carry that call, beginning in May, '22. Those bonds are callable faster than the system could possibly call them. The bank places that much behind us. We feel that we ought now with propriety make our issues, assuming an early decision of the Supreme Court, on a 10-year basis. We are going into a very bad market at best. We feel we should be given permission to make as attractive as possible. The original act has the provision "subject to payment and retirement at the option of the land bank at any time after five years from the date of their issue." We would like to have that amended so as to read: "Subject to payment and retirement at the option of the land bank at any time after the minimum period specified in the bond, which shall not be longer than 10 years," giving the issuing bank the option of fixing a minimum period, which might be as long as 10 years.

Senator PAGE. I think that is a debatable point. I do not know whether I should approve of it or not because of the fact that we do not know what is going to transpire within the next 10 years, and you will find that it is those who sell the mortgages up in New England who are pressing for that 10-year period, while the men who are trying to be perfectly safe want only 5 years because conditions may change so much in 5 years as to make it unsafe.

Mr. LOBDELL. We are obliged to make our loans, Senator, on long time. The loans can not run less than 5 years, and as a matter of fact they run 30. So we have the loan outstanding before we issue the bonds and we have a 30-year loan outstanding to pay it. It is being reduced and the security augmented by reduced payment.

Senator HITCHCOCK. That would be a simple proposition—simply saying that after a certain date the bonds issued by the bank may be so and so.

Mr. LOBDELL. Yes; I have that in the proper form.

Senator HITCHCOCK. We need not link the whole provision; just say, provided, however, that after a certain day they may be 10-year bonds. That would simplify it, would it not?

Mr. LOBDELL. As I have it drawn, it would give that provision for the future, making it not exceeding.

The CHAIRMAN. I will prepare that and introduce it, and the committee will consider it later.

Mr. LOBDELL. I hope it may be possible to have the consent of the committee to introduce it as a committee bill.

Senator GRONNA. Do you care to express an opinion on what I referred to with reference to the joint-stock land bank?

Mr. LOBDELL. I think you are entirely sound in your statement with regard to that.

The CHAIRMAN. The committee will now adjourn to meet on call of the chairman.

(Accordingly, the committee adjourned to meet subject to the call of the chairman.)



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